



Case Study 5 Direct Foreign Investment

By: All A+ Essays

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Case Study 5 Direct Foreign Investment

Review the following case study: Prime Emerald Inc. is an upscale rug manufacturer in Flint, Michigan. To supplement for declining sales in Michigan, Prime Emerald has exported rugs via China for two years because financially it is sound. Under the previous agreement prime sales 150,000 rugs to





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Riker Everything Antique in China for the next four years at a fixed price in Yen. The United Kingdom has proved to Prime that they can export the rugs for cheaper and made the offer even more attractive by offering to purchase 300,000 rugs over the next three years at a lower fixed rate. While this





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deal seems sound and a great way for Prime to escape the declining Yen currency, Prime still uses components to make their rugs from the United States and their cost of goods sold occur majorly in the states. The costs of making the rugs are 10% less than what Prime will sell them for in the U.K.





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Over the past few years the economic uncertainty in China has risen and inflation has soared. Emerald is looking to expand and possibly consider a subsidiary. In 1 to 2 pages: Explain Prime Emerald's potential direct foreign investment in a subsidiary. Describe whether Prime should establish a new

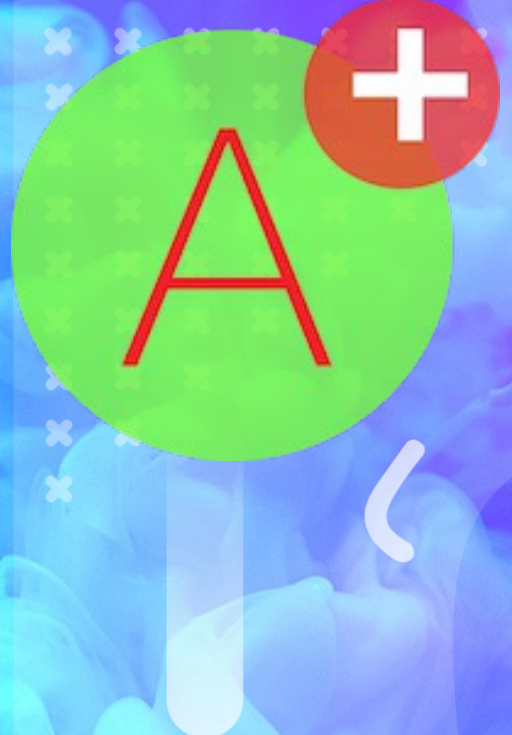




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subsidiary or acquire a subsidiary company and explain your rationale. Thoroughly explain whether or not Prime should export through the United Kingdom or continue to export through China. Consider the price differences, economic conditions of the countries, inflation of the countries and the





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